

QUESTIONS FROM THE MEMBERS AND ANSWERS PROVIDED BY TURKEY

UKRAINE

TRADE POLICY REVIEW

Turkey

QUESTIONS FROM UKRAINE

Report by the Secretariat (WT/TPR/S/331)

2 TRADE AND INVESTMENT REGIME

2.3 Trade Agreements and Arrangements

2.3.2 Regional and preferential agreements

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2.3.2.1 Customs Union with the EU

According to **paragraph 2.21 (page 31)**, “Turkey's preferential trading relationship with the EU ... was deepened in 1973 with the Additional Protocol and in 1996 with the conclusion of the Customs Union. Thus, customs duties, quantitative restrictions, and similar measures have been removed on industrial goods since 1996.”

Question 1 :

Could Turkey kindly clarify provisions concerning Turkey-EU Customs Union and market access to Turkey for other countries due to explanation of the next situation. For example country-X has an FTA with EU. Within Turkey-EU Customs Union established zero rate for a certain good which country-X exporting to EU. Is it possible for country-X to export to Turkey such good at zero tariff rate?

Turkey's Answer: In line with the Customs Union, trade of industrial products between Turkey and the EU takes place on the basis of principle of free circulation of goods. In other words, the rules of origin are not relevant in order for the industrial products that are subject to trade between the Parties to benefit duty free treatment. The important thing is that the products should meet the conditions to be released for free circulation by the Parties.

Trade between the FTA partners, on the other hand, takes place on the basis of rules of origin. More specifically, any product that is subject to bilateral trade needs to meet the FTA's respective rules of origin in order to benefit from the tariff concessions introduced by the FTA.

Article 3 of the Customs Union Decision lays down in detail the conditions under which the products would be considered in free circulation. In this respect, products

from third countries shall be considered to be in free circulation in the EU or in Turkey if import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have been levied in the Community or in Turkey, and if they have not benefited from a total or partial reimbursement of such duties or charges. Furthermore, Article 4 stipulates that customs duties and charges having equivalent effect shall be abolished between the EU and Turkey. Finally, Article 13 requires Turkey to apply the EU's Common Customs Tariff for the imports coming from third countries.

So, a third country with which the EU has an FTA but Turkey has not, can export an industrial product to the EU by benefitting from the concessions provided by the FTA and put this product into free circulation by completing the necessary import formalities. And, since the product is in free circulation now, this third country can export the product to Turkey at zero tariff rate by avoiding the Common Customs Tariff applied by Turkey for third country imports.

According to the Customs Union Decision, in case discrepancies in the implementation of the commercial policy cause to impairment of free circulation of goods or deflection of trade as in the case described above, any party may take measures to remedy the injury. Such situation is specifically defined in Article 58/2 of the Decision. In fact, in line with this provision, an additional fiscal duty is currently in application for the motor vehicles originating in Mexico, which are exporting to Turkey over the EU. This is not an application resorted by Turkey frequently or systematically. However, if similar cases of trade diversion are detected, such measures might be extended to other products/countries.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Measures Directly Affecting Imports

3.1.5 Tariffs

3.1.5.1 Applied MFN duties

Paragraph 3.30 (page 50) notes that "...Law No. 474 on the Customs Tariff Schedule allows the Government to increase the applied MFN rates when these are deemed insufficient to provide "adequate" protection to domestic industries. the Government may replace applied MFN rates by 150% of the corresponding rates of the statutory tariff to ensure higher protection to local industries."

Question 2:

Could Turkey kindly provide an explanation concerning preconditions (criteria) for applying increased import duty rates (up to 150%) for some agricultural products to protect appropriate agricultural sectors in accordance with provision of Paragraph 3.30?

Turkey's Answer: Turkey has bound all of its tariffs for agricultural products and stays within bound rates, in consistent with her WTO commitments

However when deemed necessary, applied MFN tariff rates for agricultural products can be increased up to bound level, considering market conditions (domestic and international prices, demand and supply etc.).

According to **paragraph 3.31 (page 50)** "...The compound duties affect mainly processed agricultural products such as yoghurt, bread, pastry and pasta. Variable duties apply to items such as dairy spreads, sugar confectionary, and chocolate. ... the compound and variable duties are linked to the implementation of Turkey's customs union commitments with the EU, where the Turkish lira equivalents of the components expressed in euros are to be paid into the Mass Housing Fund."

Question 3:

Could Turkey kindly elaborate on reasons for forming the Mass Housing Fund at the expense of duties collected from agricultural products?

Turkey's Answer: Turkey has adopted the EU's system of processed agricultural products in line with its commitments emanating from the Customs Union with the EU. Therefore, the importation of processed agricultural products such as chocolate, pastry, sugar confectionery is subject to agricultural component (namely the Turkish lira equivalents of the components expressed in euros are to be paid into the Mass Housing Fund), which in total per product the MFN is rate respected.

According to the Table 3.2 contained in **paragraph 3.34 (page 52)** applied tariff rates exceed the bound tariff rates.

Questions 4:

Could Turkey kindly provide an explanation on the intention of Turkey to reduce tariffs to the bound rates levels pursuant to the WTO rules? Has Turkey any timeframe for this process?

Turkey's Answer: In the framework of EU-Turkey Customs Union, Turkey has the obligation to undertake EU's Common Customs Tariffs regarding the imports from the third countries. The case for the 47 tariff lines, the applied MFN rates have been implemented as the same rates with the CCT rates, apparently exceeding Turkey's bound rates in certain tariff lines. Turkey is planning to consult this issue with the EU Commission with a view to finding a solution both preserving WTO bound commitments and its Customs Union requirements without causing trade diversion.

3.3 Measures Affecting Production and Trade

3.3.1 Business framework

3.3.1.3 SMEs

Paragraph 3.150 (page 91) notes that "Small and medium-sized enterprises (SMEs) are an important part of the Turkish economy, accounting for 99.8% of total enterprises, 75.8% of employment, and 54.2% of value added at factor cost.

They are also important to Turkey's trade ...". According to **paragraph 3.151** "Turkey's SMEs are supported by the Small and Medium Enterprises Development Organization (KOSGEB)". Paragraph 3.153 notes about the SME Strategy and Action Plan for 2015-18.

Question 5:

Could Turkey kindly explain what concrete measures of National Entrepreneurship Strategy and Action Plan of Turkey (2015-2018) was prepared by KOSGEB and describe cooperation between KOSGEB and other similar SME support institutions in other countries.

Turkey's Answer: The purpose of National Entrepreneurship Strategy and Action Plan of Turkey (GİSEP) is to "generalize the culture of entrepreneurship in Turkey, form a strong ecosystem and improve entrepreneurship". The plan which was approved by Higher Planning Council on June 18th, 2015 by decision number 2015/18 has come into force upon having been published in the Official Gazette on July 1st, 2015. GİSEP includes strategic goals in six intervention areas defined to achieve overall goals and actions and projects that shall be executed by relevant institutions and organizations in the 2015-2018 period.

1. Develop entrepreneur friendly regulatory framework
2. Support Innovative entrepreneurship
3. Develop a sustainable support system for priority thematic areas and general areas such as Women's entrepreneurship, young entrepreneurs, Eco entrepreneurship, Social entrepreneurship and Global entrepreneurship and ensure execution
4. Develop a culture that embraces entrepreneurs and entrepreneurship in our country
5. Generalize entrepreneurship trainings at level of formal and mass educations and develop consultancy system entrepreneurs oriented
6. Facilitate entrepreneurs' access to finance

Entrepreneurship Council is responsible for taking decisions on monitoring and evaluation of GİSEP. Revisions can be made when deemed necessary by the Council and new actions can be added. The Council may create working groups when necessary. KOSGEB is responsible for the overall coordination and secretariat plans. Organizations responsible for the action, prepares annual progress reports for each action and sent them to KOSGEB on a date determined again by KOSGEB. Technical Committee composed of representatives of organizations responsible for the actions, to discuss the progress of these actions, meets once a year chaired by Undersecretary of the Ministry of Science, Industry and Technology. KOSGEB consolidates progress reports annually and presents them to the Entrepreneurship Council. The Council takes the necessary routing decisions at its meeting which is done at least once in every year.

Question 6:

Is there evaluation of effectiveness of SME Strategy and Action Plan due to the end of 2015? If yes, what were the results and what institution was preparing this report (KOSGEB or other)?

Turkey's Answer: The implementation process of SME Strategy and Action Plan (SSAP) 2011-2013 was extended one year and it ended in 2014. Monitoring and evaluation of SSAP was carried out by Monitoring and Steering Committee of SSAP. This committee was responsible for plan management and chaired by the Undersecretary of Ministry of Science, Industry and Technology. The other representatives of committee are listed as follows: KOSGEB, Undersecretariat of Treasury, Ministry of Finance, Ministry of Economy, Ministry of Development, Ministry of National Education, Ministry of European Union, Ministry of Customs and Trade, Ministry of Labour and Social Security, Ministry of Environment and Urban Planning, Council of Higher Education, Turkish Statistical Institute, TÜBİTAK, Union of Chamber and Commodity Exchanges, Confederation of Turkish Tradesmen and Craftsmen.

According to Monitoring and Steering Committee 74 actions of 82 were accomplished successfully by the responsible institutions.

However, Final Evaluation of SSAP 2015 - 2018 will be executed by independent competent company/agency which will be selected by a sub-working group which will be established in May 2017.

Question 7:

Could Turkey kindly inform of influence on SME development regarding Turkey-EU relations (especially Customs Union). Does it have an impact on SME internationalization?

Turkey's Answer: The Customs Union Decision does not include provisions specifically dealing with the SMEs. Yet, this does not mean that the Customs Union does not have a positive impact on the SMEs particularly in terms of SME internationalization.

The Customs Union has certainly become the core of the economic integration between Turkey and the EU and so far played a crucial/undeniable role in Turkey's transformation to a more dynamic, open, and competitive economy. It has restructured and liberalized the foreign trade regime of Turkey. Moreover, introduction of a wide range of legislation from competition and state aids to technical legislation and protection of intellectual property rights has resulted in improved/disciplined market conditions and provided a more secure, transparent and foreseeable trading and investment environment for economic operators. Commitments undertaken in connection with the Customs Union consolidated Turkey's overall reforms in terms of restructuring and modernization of the manufacturing sector. In sum, the Customs Union has locked-in legislative and

structural reforms initiated by Turkey particularly in the areas governing economy and trade.

Consequently, with the Customs Union, SMEs have gained improved market access conditions first in the EU market and in the markets of the FTA partners; increased their competitiveness by having an enhanced quality infrastructure; found the possibility to operate in a more convenient economic environment and integrated into the EU market.

Question 8:

What chapters of Association Agreement that are in the process of negotiations (of 14) are linked to SME development? What advantages SMEs will obtain in fact? What changes needed to be done in national legislation?

Turkey's Answer: Within the framework of accession negotiations to the EU, SMEs are mainly covered under Chapter 20 on Enterprise and Industrial Policy.

In that respect, in 2014, Turkey and EU have signed an agreement for Turkey to join the EU's Competitiveness of Enterprises and SMEs Program (COSME), which aims to strengthen the competitiveness and sustainability of the enterprises, encourage an entrepreneurial culture and promote the creation and growth of SMEs.

Besides, "European Small Enterprises Act Principles" has entered into force with Prime Ministerial Circular in 2011 in Turkey for the coordination of harmonization of the 2008 Small Business Act (SBA) for Europe. This Circular aims to improve the approach to entrepreneurship in Turkey, simplify the regulatory and policy environment for SMEs, and remove the remaining barriers to their development.

According to Turkey 2015 Progress Report, with the adoption of the new SME strategy a progress was recorded in terms of developing policy in Turkey. Moreover, Turkey is currently participating in the assessment exercise on the SBA and initial results confirm that Turkey is performing well in a considerable number of dimensions.

Question 9:

What measures were implemented due to the trade agenda items of Turkey's G-20 Term Presidency [...ii) policies for enhancing the participation of Small and Medium Sized Enterprises (SMEs) and LIDC's into the Global Value Chains (GVCs)...]?

Turkey's Answer: Implementing policies for fostering greater integration of SMEs and LIDCs into the GVCs was an essential priority for the G20 Turkish Presidency under the trade pillar within the framework of the focus on "inclusiveness" as well as "implementation".

In this sense, the issue was studied thoroughly during our Term Presidency. At the G20 Trade Ministers' Meeting held on October 6, 2015, ways to better integrate SMEs and LIDCs into the Global Value Chains (GVCs) were discussed in depth. It was acknowledged by all that the integration of SMEs and LIDCs to world trade would definitely be a stimulus for global growth and GVCs could be a crucial instrument in order for this to happen. Discussions about possible policy actions that can increase the inclusiveness of GVCs were productive. G-20 countries expressed strong will to implement the much needed policies in order to increase participation of SMEs and LIDCs into GVCs.

In the same vein, at the end of the G20 Leaders Summit on November 15-16, 2015, G20 Leaders declared as follows: "Inclusive Global Value Chains (GVCs) are important drivers of world trade. We support policies that allow firms of all sizes, particularly SMEs, in countries at all levels of economic development to participate in and take full advantage of GVCs and encourage greater participation and value addition by developing countries".

Question 10:

What part of Vision 2023 related to SME development, including Tenth Development plan (specify short and long-term goals and specific measures)?

Turkey's Answer: The Tenth Development Plan identifies specific development goals and measures regarding SMEs under section 2.2.12. Entrepreneurship and SMEs. According to the plan, it is essential to strengthen SMEs in issues such as succeeding in increasing global competition, accessing sufficient capital, breeding innovative projects and developing collaborative businesses and partnerships. The need to increase the number of entrepreneurs and their skills is an ongoing process, whereas access to finance needs to be improved considering both supply and demand.

The primary objective is to increase competitiveness of SMEs and consequently increase their contribution to economic growth. In this context, it is essential to support high growth or high potential enterprises and those that have innovative products, services or business models.

Developments and Targets in Entrepreneurship and SMEs for the year 2018 are listed below in Table 1.

Table 1 Developments and Targets in Entrepreneurship and SMEs

	2006	2012	2013	2018
The Number Of Newly Established Firms (Thousand)	53	39	50	75
The Ratio of Small and Medium Enterprises (%) ¹	1,7	2,4 ²	3,0	4,0

The Number Of Enterprises Located In Industrial Estates	35.000	41.000	45.000	65.000
The Number Of Completed Industrial Estates	130	153	160	200
The Amount Of SMEs' Exports (Billion Dollars)	50	90	100	150
The Number Of Exporter SMEs (Thousand)	44	50	52	60
SME Expenditures on R&D (%)	10,0 ³	14,9 ²	17,0	20,0
The Number Of Enterprises Located In Technology Development Zones	604	2.174	2.500	4.000

Source: 2006 and 2012 data are from TURKSTAT, Ministry of Science, Industry and Technology and The Union of Chambers and Commodity Exchanges of Turkey (TOBB). 2013 and 2018 data are estimates of the Tenth Development Plan.

(1) Includes small and medium enterprises with 20-249 employees.

(2) 2010 figure

(3) Estimate of the Ministry of Development

Policies

1. Entrepreneurial culture will be further improved by disseminating formal and informal programs at every level of the education system, increasing the quality of existing entrepreneurship training programs and promoting and awarding entrepreneurial role models.
2. In-house capabilities and collaboration capacity of all institutions that provide services and support within the entrepreneurial ecosystem will be improved. Professional associations that bear a public entity legal status will be restructured to support entrepreneurship and increase their contribution to the entire economy.
3. Quantity and quality of incubators, business development centers and accelerators will be improved to better serve entrepreneurs. Support models will be designed by collaboration of public, private and non-governmental institutions.
4. State support for entrepreneurship and SMEs will be provided on the basis of innovation, productivity and employment, growth and collaboration, as well as giving priority to women, youth and social entrepreneurship. Monitoring and evaluation of implementation will be enhanced and contribution of the supports to the economy will be measured by employing impact analyses.
5. Access to finance for startups and SMEs will be facilitated by improving angel investments, venture capital, credit guarantee fund, applications of micro-finance and by exploring other capital market opportunities.
6. Internationalization of SMEs will be augmented by improving their R&D, innovation and export capacity.
7. SMEs will be supported for further organized activities and forming clusters among themselves and with larger enterprises, universities and research centers.
8. SMEs will be ensured to become brands, institutionalize and generate innovative business models.
9. Implementation of OIZ, TDZ, SIZ and Industrial Zones will be improved to ensure higher quality service delivery through proper institutionalization and effective management.
10. Essential transformation of artisans and craftsmen enforced by the changing economic and social circumstances will be supported, while preventing negative impact of malls on smaller artisans and craftsmen.

11. Activities for becoming co-operatives will be encouraged in order to increase the contribution of individuals and small businesses to economic and social development.

4 TRADE POLICIES BY SECTOR

4.1 Agriculture

4.1.4 Support programmes

According to **paragraph 4.18 (page 128)** “Turkey's agriculture support has undergone many changes over the last 20 years leading to the maintenance of relatively high supports, at least in comparison to other OECD countries.”

Question 11:

Could Turkey kindly provide information on possible state support (excluding export subsidies) for agricultural products, export of which tends to increase (according to the Table 4.3 contained in Paragraph 4.8, page 123), in particular with respect to the following commodities:

- 1704 (Sugar confectionery, not containing cocoa) and 1806 (Chocolate and other food preparations containing cocoa);
- 1512 (Sunflower-seed, safflower or cotton-seed oil);
- 0702 (Tomatoes, fresh or chilled).

Turkey's Answer: Turkey does not provide domestic supports for 1704 (sugar confectionery, not containing cocoa), 1512 (sunflower-seed, safflower or cotton seed oil) and 1806 (chocolate and other food preparations containing cocoa)

For 0702 (tomatoes, fresh or chilled), there is decoupled domestic support in use.

4.1.9 Marketing Boards

4.1.9.1 Turkish Grain Board

Paragraph 4.38 (page 136) notes that “TMO's activities cover a range of grains and other commodities, including wheat, barley, rye, oats, triticale, maize, paddy rice, hazelnuts, and poppy. Its role in the grain market is to purchase, hold stocks, and sell as necessary and is determined by annual production and the price situation in Turkey.”

According to the Table 4.3 contained in Paragraph 4.8 (page 123) exports of some agricultural products (related with grain) increased in the 2010-2014 period: wheat or meslin flour - from US\$ 598 to 933 million; pasta, whether or not cooked or stuffed - from US\$ 186 to 507 million; bread, pastry, cakes, biscuits and other bakers' wares - from US\$ 487 to 939 million; meat and edible offal, of the poultry of heading 01.05 - from US\$ 203 to 651 million.

Question 12:

Could Turkey kindly provide more detailed information on the activity of the Turkish Grain Board concerning stock management and grain purchases for further selling to:

- *flour milling enterprises, which produce flour for export;*
- *flour milling enterprises, which produce flour for further selling to pasta industry and confectionery enterprises that export goods of tariff lines 1902 and 1905;*
- *enterprises as raw materials for producing feeds designed for poultry industry.*

Turkey's Answer: Depending on domestic demand conditions, grain that is purchased by the Turkish Grain Board (TMO) may either be marketed domestically or be exported. TMO imports quality wheat in line with needs of domestic market when necessary.

TMO's wheat purchasing activities from the domestic market is carried out in accordance with the "Implementing Regulation on TMO's Purchase and Sale Principles of Grain". This Implementing Regulation is parallel to the EU legislation.

Wheat in the TMO stocks is categorized into quality standards, and sales in the domestic market are carried out in line with the needs of processors and the feed market.

ADDITIONAL QUESTIONS

Question 13:

Possibility of weakening protection requirements of the domestic Turkish market and the liberalization of access of Ukrainian goods in the framework of the WTO mechanisms.

Turkey's Comment: Turkey has always been a staunch supporter of the multilateral trading system which WTO represents and it has been involved in negotiations towards further trade liberalization. To this end, Turkey has actively participated in the Non-Agricultural Market Access Negotiations within the context of Doha Development Agenda. Besides, Turkey's agricultural products are 100% bound and Turkey has a transparent and predictable import policy.
(AYNI CEVABIN OLDUGU SORUYU KONTROL)

Question 14:

How to avoid complications during the certification of Ukrainian enterprises in Turkey (Turkish companies are facing similar problems while supplying goods to Ukraine? Eventual concluding of bilateral agreement on mutual recognition of conformity certificates or settlement in the framework of the negotiating FTA.).

Turkey's Answer: In line with the requirement stemming from the Customs Union, Turkey has been continuously aligning with the EU's technical legislation. This alignment concerns both the technical regulations of products and horizontal

legislation on quality infrastructure covering areas of standardization, accreditation, conformity assessment, and metrology.

Within this context, mutual recognition of conformity assessment certificates/procedures between Turkey and the EU is possible only on the condition that Turkish Accreditation Agency (TÜRKAK) has signed multilateral agreements (MLA) with the European Accreditation in relevant areas. Turkey is fully aligned with the EU's respective product legislation and the horizontal rules on conformity assessment; and this alignment is confirmed by the Turkey-EU Customs Union Joint Committee.

Currently, following the structure described above, Turkey and the EU has accomplished mutual recognition of conformity assessment certificates for a number of products covered by the EU's New Approach Directives.

Nevertheless, within the context of the Customs Union, currently Turkey's practice on mutual recognition of the conformity assessment certificates is limited to the EU and the EFTA states, which are applying exactly the same product/horizontal regulation as the EU.